



Office of Military Affairs Connecticut Military and Defense Advisory Council

January 26, 2008
Minutes of Meeting

Members Present:

Justin Bernier, Chairman & Executive Director of the Office of Military Affairs; Lieutenant Colonel **Russell J. Bonaccorso, Jr.**, USA; Rear Admiral **J. Scott Burhoe**, USCG; **Harvey E. Daggett**, Commander, Connecticut American Legion Department; Senator **Leonard A. Fasano**, Connecticut General Assembly (CGA); Captain **Mark S. Ginda**, USN; Representative **Ted C. Graziani**, CGA; Major General **Thaddeus J. Martin**, CTNG; Department of Economic and Community Development Commissioner **Joan McDonald**; **Alfred Meek**, Commander, Connecticut Veterans of Foreign Wars Department; **John R. Rathgeber**, President & CEO, Connecticut Business & Industry Association (CBIA); Department of Veterans' Affairs Commissioner **Linda Schwartz**

Guests:

Brett Rhodes, Director, Domestic Business Development for Pratt & Whitney (P&W) Military Engines; Gary Minor, Director of State Government Affairs for United Technologies Corporation (UTC); Jeff Nelson, Office of the Governor; James A. Noone of Clark & Weinstock; Congressman Rob Simmons, former Business Advocate for the State of Connecticut

I. Chairman Bernier of the Office of Military Affairs called the meeting to order at 9:00 a.m. at 505 Hudson Street in Hartford.

Chairman Bernier stated that the Council will receive briefings on the state's defense industry and how trends and developments could affect Connecticut's economy. Information from the meeting will be transmitted to the Governor.

Chairman Bernier reported that, according to the Connecticut Department of Labor, the state lost over 21,000 jobs in November and December 2008. He noted that the unemployment rate, having topped 7 percent in December, is close to the national rate.

Chairman Bernier said there is a strong relationship between Connecticut's manufacturing sector and the state's defense industry. He stated that the average manufacturing job in Connecticut is "high-tech and high-paying," and while not all manufacturing is defense-related, most areas of the defense industry have a manufacturing component. He said that Connecticut's defense manufacturers are concerned about their ability to remain competitive in the face of high taxes, high energy costs, and high insurance costs.

Chairman Bernier noted that Connecticut's large contractors draw heavily on sub-contractors in the state, and that higher costs for a sub-contractor can create a domino effect, resulting in higher prices throughout the supply chain. This effect makes it harder for a large company to win federal defense contracts. He explained that the Department of Defense budgets are tightening and that there are a number of large defense contracts on the horizon. Thus, policy decisions by

state leaders can either help or hurt the chances of Connecticut defense companies winning those large contracts. Losing federal defense contracts will mean losing jobs in Connecticut, he added.

II. Gary Minor, Director of State and Local Government Affairs at United Technologies Corporation, said UTC, a \$60 billion company, operates worldwide, with a significant presence in Connecticut (about 27,000 employees in the state). UTC has been in Connecticut since 1925, when Fred Rentschler founded Pratt & Whitney on Capitol Avenue in Hartford (subsequently, he moved it across the river to East Hartford). UTC entities include Pratt & Whitney in East Hartford; Hamilton Sundstrand in Windsor Locks; Sikorsky Aircraft in Stratford; Otis, Carrier, and UTC Fire & Security (a new business) in Farmington; and UTC Fieldstone in South Windsor.

Mr. Minor reported that UTC uses 400 to 500 suppliers across Connecticut from Staples office supplies stores to General Electric. In a typical year, UTC procures approximately a billion and a half dollars worth of orders from those suppliers in support of its products. He stated that, in terms of military and defense industries, the state's manufacturing base is just as important as its engineering base. He noted that it is a luxury to have so much engineering talent within a relatively small geographic area.

III. Brett Rhodes, Director of Domestic Business Development for Pratt & Whitney Military Engines, stated that the three main areas of UTC for defense work are Hamilton Sundstrand, Pratt & Whitney, and Sikorsky. Sikorsky's helicopter work is commercial as well as military. Mr. Rhodes said that UTC trades expertise within the company by cross pollinating commercial and military programs, a practice that helps keep work in the state. Many commercial applications go into military products. For instance, the C-17 cargo airplane uses the same engine as the Boeing 757. He stated that after-market support and services are a significant part of P&W's business.

Mr. Rhodes noted that P&W products are in the F-15 and F-16 fighter aircraft. The Joint Stars aircraft is a surveillance platform with an engine, the JT8D, originally used on the Boeing 727. P&W will restart engine production for Joint Stars following the line's shutdown in 2001. The improved engine will be produced again in Connecticut, with deliveries from Middletown expected from 2010 through 2014. The production line for the four-engine C-17 was expected to stop at 190 airplanes; but the fleet now stands at 205. Many C-17s are sold internationally.

Mr. Rhodes stated that the F-22 Raptor is a twin-engine airplane with the greatest propulsion to date, next to the F-35 Lightning II. These are two very high-tech propulsion systems that can only be done by Connecticut engineers. P&W also does after-market support. The company has fleet management programs; one thousand engines in the Air Force inventory are maintained and overhauled in Cheshire.

IV. John Rathgeber, President and CEO of CBIA, explained that the defense industry in Connecticut is part of the state's "economic base." The defense industry companies are the producers of wealth; they export products and services beyond Connecticut's borders, nationally and sometimes internationally, bringing payments back in return. Mr. Rathgeber noted that the retail service sectors are important; each contributes to Connecticut's quality of life. However,

without the companies that are actually creating wealth, exporting products and services, bringing resources back to the Connecticut, we cannot sustain the quality of life that people in the state desire.

Mr. Rathgeber said that to be a successful business, one needs to know the customer, the mission of that customer, and how that mission is evolving. One must know the needs of that customer – a prime responsibility of the defense industry in Connecticut. He said we need to be not only world-class, but the world’s best; and we need to be cost-effective. It is necessary to have the best value possible for the military, the federal government, and the U.S. taxpayers.

If policymakers look at Connecticut’s advantages and disadvantages, and address the disadvantages, then the state will be in fairly good shape, Mr. Rathgeber said. One of the state’s chief advantages is its intellectual capital. Whether on the engineering side or the manufacturing side, there is a deep reservoir of knowledge in Connecticut. It took ten years to recover from the state’s bad decisions in the 1980s. The state will need continued support from congressional and state leaders who understand the importance of the defense industry in Connecticut.

V. Mr. Noone of Clark & Weinstock (formerly known as “The Washington Group”) reported on some of the challenges facing the Obama Administration, such as the cost of two wars; a larger Army; ground forces equipment reset; big ticket programs, like the Joint Strike Fighter, F-22 Raptor, Future Combat System, Air Force tanker, and C-17 Globemaster III; and Navy shipbuilding. He mentioned that the Virginia-class submarine program is going strong. The fundamental issue for defense spending, Mr. Noone said, is the growing mismatch between the annual defense budget and long-term defense requirements.

Mr. Noone cited the federal government’s challenge of maintaining adequate defense spending as entitlement spending grows. He noted that in Fiscal Year (FY) 1968, 65 percent of the federal budget was discretionary spending, not entitlements. However, by FY 2008, only 30 percent of the federal budget was discretionary in nature. If entitlement spending continues to grow, he surmised, the federal government will be forced to choose between higher taxes and a reduction in discretionary spending accounts, to include national defense.

Mr. Noone reported that the Economic Stimulus Package for defense shows \$8.48 billion for infrastructure, \$1.8 billion for energy efficiency, and \$350 million for renewable energy research and development. According to Mr. Noone, the FY 2010 defense budget is due probably in April. There will be some changes to the Bush Administration’s spending priorities, but temporal considerations will prohibit major overhauls, he judged. Other key indicators for future spending are the FY 2010 war supplemental (expected to be about \$70 billion) and the Quadrennial Defense Review (QDR), which will mainly impact the FY 2011 defense budget process.

Looking ahead, Mr. Noone predicted there may be some reductions in defense spending in the FY 2010 budget, but that cuts will not be widespread because economic concerns will likely prevail. In the QDR, there will be a framework for adjustments to force structure and major weapons programs. The QDR will likely call for enhanced counter-insurgency and irregular warfare capabilities. He also stated that there will be more cuts in the FY 2011 defense budget – perhaps large ones – depending on the status of the nation’s economic recovery and the Obama Administration’s apparent desire to elevate domestic issues in priority. He said there may well

be major cuts and program terminations in the future if the Obama Administration tries to balance spending within available resources.

VI. Comments, Suggestions and Questions

Congressman Rob Simmons, former Business Advocate for the State of Connecticut, said that Connecticut's best asset is the people that make up the "Arsenal of Democracy." He said that Connecticut is among the top states in federal defense contracts nationwide. Problems concerning small businesses are the high cost of energy, health care, and workers' compensation, as well as red tape in getting contracts. He explained that 53 percent of all companies in Connecticut employ 4 or less people, and that 73 percent of all companies employ 9 people or less. Small businesses are a critical part of Connecticut's success; these micro-businesses are doing a piece of the larger project, said Congressman Simmons.

Gary Minor said that students are not staying in Connecticut and that UTC gets young people who have been displaced. Brett Rhodes explained that P&W gets engineers who are former military personnel and that their employee scholar program helps to keep them in Connecticut.

Commissioner Schwartz stated that the U.S. Department of Defense should communicate better with the Veterans' Administration. She also asked to whom notices of job fairs should be sent. John Rathgeber said she should send the invitations to him and that CBIA would help publicize the events.

Commander Meek said there is an educational assistance program for veterans to attend school almost immediately after leaving military service. Commissioner Schwartz explained that there is a Project Oasis on campus for quiet study and computer access.

Commissioner McDonald said the states and the nation are charting new territory. State economies and revenue bases have been negatively impacted by a loss of revenue. She cited the diversity of Connecticut's economy, the biomedical industry, healthy supply chain, business-friendly atmosphere, and engineering and manufacturing operations. Connecticut's aerospace cluster is viewed as a national model, said Commissioner McDonald.

Rob Simmons said a number of defense suppliers were told by their prime contractors that they should look to relocate outside of Connecticut. Senator Fasano noted that there is an education "brain drain." He said that Connecticut should work with the university system to devise a way to keep recent graduates in the state. Mr. Rathgeber explained that recent graduates will go to where work opportunities are located.

Representative Graziani discussed a need to get the Connecticut General Assembly and its leadership educated on these defense industry issues and for the executive branch and the legislative branch to work together.

VII. Conclusion and Adjournment: Mr. Bernier adjourned the meeting at 10:30 a.m.